

# **Auditor's report**

Midvaal Local Municipality

30 June 2014



AUDITOR - GENERAL  
SOUTH AFRICA

Mr. A. de Klerk  
The Municipal Manager  
Midvaal Local Municipality  
P.O. Box 9  
Meyerton  
1060

30 November 2014

60041REG13/14

Dear Mr de Klerk

**Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Midvaal Local Municipality for the year ended 30 June 2014.**

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa and section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. I have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
  - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
  - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format if needed.

- The report must please be referred to the Municipal Public Accounts Committee.
  - Please send 10 copies of the annual report to the Auditor-General of South Africa for attention Stakeholder Liaison Manager, 61 Central Street, Houghton.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Yours sincerely



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Senior Manager: Gauteng

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# **Report of the auditor-general to Gauteng Provincial Legislature and the council on the Midvaal Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Midvaal Local Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Midvaal Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Significant uncertainties**

8. With reference to note 37 to the financial statements, the municipality is a defendant in a number of lawsuits. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

## **Restatement of corresponding figures**

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered in the financial statements of the Midvaal Local Municipality during the year ended 31 March 2014.

## **Material losses**

10. As disclosed in note 50 to the financial statements, the municipality incurred material losses amounting to R24 775 648 (2012 -13: R16 822 830) as a result of water distribution losses, which represents 30,36% (2012 – 13: 24,33%) of the total water purchased.
11. As disclosed in note 50 to the financial statements, material losses amounting to R20 992 645 (2012 - 13: R18 972 665) were incurred as a result of electricity distribution losses which represent 12,32% (2012 – 13: 12,43%) of total electricity purchased. The total technical losses of electricity amounted to R10 223 628 (2012 – 13: R9 158 162). Non-technical losses amounted to R10 769 017 (2012 – 13: R9 814 503).

## **Additional matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited disclosure notes**

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Unaudited supplementary schedules**

14. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

15. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programme presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected programme presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Programme 6: Physical Infrastructure and Energy Efficiency on pages x to x
17. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
18. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programme. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
19. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not raise any material findings on the usefulness and reliability of the reported performance information for programme 6: Physical Infrastructure and Energy Efficiency.

## **Additional matter**

21. I draw attention to the following matter.

## **Achievement of planned targets**

22. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year.

## **Compliance with legislation**

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

## **Internal control**

24. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

## **Other reports**

## **Investigations**

25. As per the notice published in government gazette number 34305, dated 20 May 2011, an investigation is being conducted by the Special Investigating Unit into possible maladministration within the municipality. The investigation was still ongoing at the reporting date.

**AUDITOR - GENERAL**

Johannesburg

30 November 2014



**AUDITOR - GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*